

# FISCAL NOTE

**Bill #:** HB0033

**Title:** Increase cigarette tax 60 cents for general fund

**Primary Sponsor:** Jeff Mangan

**Status:** As Introduced

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Sponsor signature Date

\_\_\_\_\_  
Chuck Swysgood, Budget Director Date

## Fiscal Summary

	<b><u>FY2003</u></b> <b><u>Difference</u></b>	<b><u>FY2004</u></b> <b><u>Difference</u></b>	<b><u>FY2005</u></b> <b><u>Difference</u></b>
<b>Revenue:</b>			
General Fund	\$22,946,726	\$30,902,764	\$30,424,506
Capital Projects Fund (LRBP)	(\$114,736)	(\$154,517)	(\$152,126)
State Special Revenue (DPHHS, Vet. Nursing...)	(\$82,091)	(\$110,554)	(\$108,843)
<b>Net Impact on General Fund Balance:</b>	<b>\$22,946,726</b>	<b>\$30,902,764</b>	<b>\$30,424,506</b>

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

## Fiscal Analysis

### ASSUMPTIONS:

1. Under current law, the cigarette tax rate is \$0.18 per pack.
2. Under this proposal, the cigarette tax rate is increased to \$0.78 per pack beginning October 1, 2002. This proposal is shown in Table 1.
3. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.

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4. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 93.78% to the state general fund; 3.66% to the Long-Range Building Program Account; and 2.56% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes. This proposal is shown in Table 1.

<b>Table 1</b> <b>HB33 (Special Session 2002) As Introduced</b> <b>Current Law and Proposed Law Cigarette Tax Rates</b> <b>and Distribution of Net Revenue</b>		
Revenue Fund	Tax Rate	Distribution of Net Revenue
<b>Current Law</b>		
	<b>\$0.18</b>	
General Fund		73.040%
LRBP		15.850%
DPHHS (Veteran Nursing Homes)		11.110%
<b>Proposed Law - July 1, 2002 to October 1, 2002</b>		
	<b>\$0.18</b>	
General Fund		73.040%
LRBP		15.850%
DPHHS (Veteran Nursing Homes)		11.110%
<b>Proposed Law - October 1, 2002 and on</b>		
	<b>\$0.78</b>	
General Fund		93.780%
LRBP		3.660%
DPHHS (Veteran Nursing Homes)		2.560%

5. Increasing the cigarette tax rate from \$0.18 to \$0.78 per pack will generate new net revenue of \$22,749,899 in fiscal 2003; \$30,637,694 in fiscal 2004; and \$30,163,537 in fiscal 2005. Revenue to the state general fund will **increase** by \$22,946,726 in fiscal 2003; \$30,902,764 in fiscal 2004; and \$30,424,506 in fiscal 2005. Revenue to the Long-Range Building Program Account will **decrease** by \$114,736 in fiscal 2003; \$154,517 in fiscal 2004; and \$152,126 in fiscal 2005. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will **decrease** by \$82,091 in fiscal 2003; \$110,554 in fiscal 2004; and \$108,843 in fiscal 2005.
6. The impacts in assumption five are calculated using a model developed by the Department of Revenue (DOR). The DOR cigarette tax revenue estimate under current law for fiscal years 2003 through 2005 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of a tax increase. Given a base cost of \$2.82 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.16%.

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7. Table 2 shows the summary of the impacts from the cigarette tax increase under the assumption that there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack.

<b>Table 2</b> <b>HB33 (Special Session 2002) As Introduced</b> <b>Summary of Cigarette Tax Rate Increase Impacts</b> <b>No Stockpiling</b>			
	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>
<b>Cigarette Tax</b>			
<b>Net Revenue</b>			
Revenue - Current Law	\$ 10,630,946	\$ 10,466,419	\$ 10,304,438
Revenue - Proposed Law	\$ 33,380,845	\$ 41,104,112	\$ 40,467,975
<b>Change In Revenue</b>	<b>\$ 22,749,899</b>	<b>\$ 30,637,694</b>	<b>\$ 30,163,537</b>
<b>% Change In Revenue</b>	<b>214.0%</b>	<b>292.7%</b>	<b>292.7%</b>
<b>Change in Revenue</b>			
<b>General Fund</b>	<b>\$ 22,946,726</b>	<b>\$ 30,902,764</b>	<b>\$ 30,424,506</b>
<b>LRBP</b>	<b>\$ (114,736)</b>	<b>\$ (154,517)</b>	<b>\$ (152,126)</b>
<b>DPHHS (Vet. Nursing Homes)</b>	<b>\$ (82,091)</b>	<b>\$ (110,554)</b>	<b>\$ (108,843)</b>

FISCAL IMPACT:

	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Revenues:</u>			
General Fund (01)	\$22,946,726	\$30,902,764	\$30,424,506
Capital Projects Fund (LRBP) (02)	(\$114,736)	(\$154,517)	(\$152,126)
State Special Revenue (DPHHS, Vet. Nursing...) (03)	(\$82,091)	(\$110,554)	(\$108,843)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>			
General Fund (01)	\$22,946,726	\$30,902,764	\$30,424,506
Capital Projects Fund (LRBP) (02)	(\$114,736)	(\$154,517)	(\$152,126)
State Special Revenue (DPHHS, Vet. Nursing...) (03)	(\$82,091)	(\$110,554)	(\$108,843)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This proposal has no impact on county or other local government revenues or expenditures.

LONG-RANGE IMPACTS:

Revenue to the state general fund will continue to be greater under this proposal than under current law. Revenue to the Long-Range Building Program Account and the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will continue to be less than under current law.

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**TECHNICAL NOTES:**

1. The estimates provided in this fiscal note assume there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack. The current language of this bill doesn't necessarily prevent wholesalers or retailers from purchasing an unusual amount of cigarettes and tobacco products prior to the tax increase.
2. Table 3 shows the different scenarios for fiscal 2003 if stockpiling occurred. The different scenarios are based on the number of months of stockpiling. The scenarios range from one to six months.

<b>Table 3</b> <b>HB33 (Special Session 2002) As Introduced</b> <b>FY2003 Revenue Impacts if Stockpiling Occurs</b>						
Description	Stockpiling					
	1 Month	2 Months	3 Months	4 Months	5 Months	6 Months
<b>Cigarette Tax</b>						
<b>Change in Revenue:</b>						
General Fund	\$ 19,986,700	\$ 17,866,836	\$ 15,564,388	\$ 12,379,430	\$ 10,317,601	\$ 7,863,709
LRBP	\$ (99,935)	\$ (89,336)	\$ (77,823)	\$ (61,898)	\$ (51,589)	\$ (39,319)
DPHHS (Vet. Nursing Homes)	\$ (71,502)	\$ (63,918)	\$ (55,681)	\$ (44,287)	\$ (36,911)	\$ (28,132)